

# How the Plan Works

## Section III: Taking Money Out of SIP (cont'd)

### How Much

If you request a final distribution, you will receive the full value of all your SIP accounts—before-tax, after-tax, rollover, and company match.

Distribution of your investments in a pre-mixed portfolio and the Large Cap Growth Equity, Large Cap Value Equity, Mid Cap Growth Equity, Mid Cap Value Equity, Small Cap Equity, U.S. Equity Index, Balanced, International Equity, and Fixed Income Funds will be in cash.

You have three choices as to the Solutia stock in the Solutia Stock Fund: 100% shares of Solutia stock; 100% cash; or a portion, in specific number of shares, of the account as Solutia stock and the remaining portion in cash. You will make a separate election for your Solutia Stock Account and your Solutia Company Match Account. If you elect to take any portion as shares of stock, any fractional shares in your account will be paid in cash. If you do not make an election, your Solutia stock in both accounts will be converted to cash.

Similarly, you have three choices as to the Pharmacia or Monsanto stock in your Pharmacia or Monsanto Stock Fund: 100% shares of Pharmacia or Monsanto stock; 100% cash; or a portion, in a specific number of shares of the account as Pharmacia or Monsanto stock and the remaining portion in cash. If you elect to take any portion as shares of stock, any fractional shares in your account will be paid in cash. If you do not make an election, your Pharmacia or Monsanto stock will be converted to cash.

If you have transferred part of your Solutia Company Match Account into the other investment funds and/or a pre-mixed portfolio and you want to receive all or part of these amounts as Solutia stock, you will need to transfer your money back to the Solutia Stock Fund (see pages 21–22) when you make your final distribution request.

With a final distribution, any unpaid SIP loan you have is canceled. The outstanding loan balance is considered as part of your final distribution for tax purposes, but will not be included in your payment since you have previously received that money.

# How the Plan Works

## Section III: Taking Money Out of SIP (cont'd)

### *How and When to Apply*

After you terminate your employment, you will be sent a Separation of Employment Notice, showing your account balance, distributions options, and any outstanding loan amounts, as well as a Notice of Alternative Tax Treatments. You may request a distribution **after** you receive and review these forms.

You can request a final distribution on *Your Benefits Resources* or by calling and speaking to a Benefits Center representative. The amount available for distribution is determined at the close of each business day (3:00 p.m. Central time, or when the stock market closes).

You will receive your distribution as soon as administratively possible **after** you request it. If you are receiving stock, your stock certificate(s) will be sent separately from your check.

### *Tax Information*

You may have to pay ordinary income tax, and possibly an additional 10% penalty tax, on the taxable portion of your distribution. Your distribution may qualify for 10-year averaging. You may be able to roll over your distribution. Special rules apply if part of your distribution is in stock. See the "Tax Information" section on pages 43-52.

## **DEFERRAL AT TERMINATION OF EMPLOYMENT OR RETIREMENT**

If you terminate employment or retire before age 70½, you can elect to defer receiving your SIP money. After you terminate employment or retire, your accounts will automatically be put in deferral status until you elect a final distribution or begin installment payments.

### *Length of Deferral*

You can end deferral at any time up to April 1 of the calendar year following the calendar year in which you reach age 70½. If you make no payment election prior to age 70½, you will begin receiving minimum distribution payments in December of the calendar year in which you reach age 70½. You will be notified in writing before any payments begin.

# How the Plan Works

## Section III: Taking Money Out of SIP (cont'd)

### *Investment of Accounts During Deferral*

Amounts in your Before-Tax and After-Tax Accounts remain invested in accordance with your latest investment election unless you make an investment transfer election. While you are in deferral status, you will be able to make investment transfers, subject to the rules and limitations described on page 21.

You can choose to keep all or part (in 1% increments) of your Solutia Company Match Account invested in the Solutia Stock Fund. If you do not make an election, your Solutia Company Match Account will remain invested in the Solutia Stock Fund. You may elect to have all or part of your Solutia Company Match Account transferred to the other investment funds (excluding the Pharmacia or Monsanto Stock Fund) and/or a pre-mixed portfolio (see pages 10-16). In addition, you will be able to transfer amounts back into the Solutia Stock Fund, and you can choose to keep all or part (in 1% increments) of your Pharmacia or Monsanto Company Match Account in the Pharmacia or Monsanto Stock Fund. If you do not make an election, your Pharmacia or Monsanto Company Match Account will remain invested in the Pharmacia or Monsanto Stock Fund. You may elect to have all or part of your Pharmacia or Monsanto Company Match Account transferred to the other investment funds and/or a pre-mixed portfolio (see pages 10-16).

Remember, amounts transferred out of the Solutia, Pharmacia, or Monsanto Stock Fund Company Match Accounts continue to be accounted for separately.

### *Loan Balance*

If you repay any outstanding loan balance in full within two months after your employment ends, your loan will not be reported as current taxable income at the time of your termination of employment. However, if you do not repay your loan balance within two months after you terminate employment, your loan balance will be considered as distributed to you when you terminated employment and reported as a distribution for income tax purposes. This could mean that you will have a SIP distribution in two different calendar years—when you terminate employment and when the deferral ends. This may preclude the distribution at the end of your deferral from qualifying for a lump-sum distribution. See the "Tax Information" section on pages 43-52.

### *Partial Distributions*

While in deferral, you will be able to take two partial distributions (minimum \$200) per year. If you will be receiving amounts from the Solutia, Pharmacia, or Monsanto Stock Fund, you can elect to receive such amounts in cash or in shares of Solutia and/or Pharmacia or Monsanto stock. If you want to receive shares of Solutia, Pharmacia, or Monsanto stock, you will need to log on to *Your Benefits Resources* or call and speak to a Benefits Center representative.

## How the Plan Works

### Section III: Taking Money Out of SIP (cont'd)

When you elect a partial distribution, you will need to indicate whether you want the distribution amount paid directly to you or rolled over into an IRA or to another qualified plan that accepts rollovers.

If you are receiving Solutia, Pharmacia, or Monsanto stock, your stock certificate(s) will be sent separately from your check.

If you have transferred part of your Solutia Company Match Account into the other investment funds and/or a pre-mixed portfolio and you want to receive these amounts as Solutia stock, you will need to transfer your money back to the Solutia Stock Fund (see pages 21-22) when you request the partial distribution.

#### ***Direct Rollovers From Solutia/Subsidiary Plans Into SIP***

If you either: (1) retired on or after February 1, 1994, or (2) terminated employment on or after March 31, 1995, with an existing SIP account and elected either deferral or installment payments, you may elect to directly roll over eligible lump-sum payouts or partial distributions from qualified Solutia and subsidiary pension and/or savings plans into SIP.

If you elect to make a direct rollover from a qualified Solutia pension plan, you will need to complete the pension Direct Rollover Election Form included in your pension retirement package and indicate, in 1% increments, how you want your rollover amount invested among the investment funds (excluding the Pharmacia or Monsanto Stock Fund) and/or a pre-mixed portfolio. Your Direct Rollover Election Form must be returned to the Benefits Center, along with your other retirement papers, by the last business day of the month prior to the Benefit Commencement Date shown on your Pension Election Form in order for the rollover to occur on the first of the month following your Benefit Commencement Date. Rollovers from qualified Solutia pension plans into SIP will be made by a transfer between plans, so you will not directly receive any funds.

If you elect to make a direct rollover from a qualified pension and/or savings plan of a subsidiary or non-participating business unit, you will need to complete an Application for Direct Rollover Form and follow the steps described on pages 6-7.

Direct rollover amounts will be kept in a separate Rollover Account but will be treated as before-tax contributions. Company match contributions will not be made on direct rollover amounts.

#### ***If You Die During Deferral***

If you die while in deferral status and your surviving spouse is your SIP beneficiary (or one of your SIP beneficiaries), he or she will be able to elect to either receive an immediate final distribution or to defer receipt of the amount distributable to him or her up to December 31 of the calendar year in which you



# How the Plan Works

## Section III: Taking Money Out of SIP (cont'd)

would have reached age 70½ (or December 31 of the calendar year after the year in which you died, if later). Beneficiaries other than your surviving spouse will be able to elect either to receive a final distribution as soon as practicable after your death or to defer receipt of the amount distributable to him or her for up to five years from the date of your death (see page 39).

### **Choices at End of Deferral**

At the end of the deferral period, you may elect to receive a final distribution or, if your account exceeds \$5,000, you may begin installment payments.

### **To End Your Deferral**

Log on to *Your Benefits Resources* or call and speak to a Benefits Center representative to request a final distribution (see pages 29–31). You will also need to speak to a Benefits Center representative to request installment payments (see below).

You will automatically begin to receive minimum distribution payments in December of the calendar year in which you reach age 70½ if you have made no election by then.

### **Tax Information on Deferrals**

While you defer, you owe no current income tax on your SIP accounts. Under current tax law, the taxable portion of a partial distribution received while in deferral is subject to ordinary income tax and may be subject to the additional 10% penalty tax. A final distribution may qualify for 10-year averaging. You may also be able to roll over a final distribution. See the "Tax Information" section on pages 43–52.

## **INSTALLMENT PAYMENTS AFTER RETIREMENT, TERMINATION OF EMPLOYMENT, OR AT END OF DEFERRAL**

When you retire or terminate employment, or anytime during your deferral period, you can elect to begin receiving installment payments from SIP. The two types of installment payments under SIP are: (1) "calculated" and (2) "fixed." Both types of installment payments are described here. In order to be eligible to receive installment payments, your account balance must be greater than \$5,000 as of the date your payments begin.

# How the Plan Works

## Section III: Taking Money Out of SIP (cont'd)

### Calculated Installment Payments

If you elect "calculated" installment payments, you select the payment period—from one year to a maximum period determined by your age at the time payments begin and your actuarial life expectancy, as shown in the chart below:

Your Age	Maximum Years of SIP Payments	Your Age	Maximum Years of SIP Payments
41	41.5	56	27.7
42	40.6	57	26.8
43	39.6	58	25.9
44	38.7	59	25.0
45	37.7	60	24.2
46	36.8	61	23.3
47	35.9	62	22.5
48	34.9	63	21.6
49	34.0	64	20.8
50	33.1	65	20.0
51	32.2	66	19.2
52	31.3	67	18.4
53	30.4	68	17.6
54	29.5	69	16.8
55	28.6	70	16.0

To find out the maximum payment period for other ages, call the Benefits Center and speak to a Benefits Center representative.

Under the calculated installment method, the amount you receive per payment depends on your SIP balance, the length of your payment period, your payment interval, SIP earnings, and whether you make any withdrawals.

To estimate your payment, divide your total account balance (not including any unpaid loan balance) by the number of payments you elected. Each installment payment will be recalculated by dividing your account balance at the time payment is being made by the number of installment payments remaining.

# How the Plan Works

## Section III: Taking Money Out of SIP (cont'd)

### **Fixed Installment Payments**

If you elect the "fixed" installment payments, you indicate the dollar amount of each installment payment. The amount you elect is paid in each installment payment until your SIP balance is zero.

### **How Often?**

Under both the calculated and fixed installment payments, you select the payment interval—monthly, quarterly, or annually.

### **Investment of Accounts During Installment Payments**

Amounts in your Before-Tax and After-Tax Accounts remain invested according to your latest investment election unless you make an investment transfer election. While you are receiving installments, you will be able to make investment transfers, subject to the rules and limitations described on page 21.

You can choose to keep all or part (in 1% increments) of your Solutia Company Match Account invested in the Solutia Stock Fund. If you do not make an election, your Solutia Company Match Account will remain invested in the Solutia Stock Fund.

You can also choose to keep all or part of your Pharmacia or Monsanto Company Match Account invested in the Pharmacia or Monsanto Stock Fund. If you do not make an election, your Pharmacia or Monsanto Company Match Account will remain invested in the Pharmacia or Monsanto Stock Fund.

You may elect to have all or part of your Solutia, Pharmacia, or Monsanto Company Match Account transferred to the other investment funds (excluding the Pharmacia or Monsanto Stock Fund) and/or a pre-mixed portfolio (see pages 10-16). In addition, you will be able to transfer amounts back into the Solutia Stock Fund. Remember, amounts transferred out of the Company Match Accounts continue to be accounted for separately.

### **Making Changes During Installment Payment Period**

You can change the period over which your account is distributed (but never in excess of your life expectancy, as shown in the chart on page 35) or the amount of your installment payments, as well as the frequency of payments at any time. To make a change in your installment payment, call the Benefits Center. **Note:** once you start installment payments, you can only stop them by taking a final distribution.

## How the Plan Works

*Section III:  
Taking  
Money Out  
of SIP  
(cont'd)*

To make an address change:

- ▶ If you are an active employee—call the call the Solutia CES.
- ▶ If you have terminated—log on to *Your Benefits Resources* or call the Benefits Center.

If you want to change your withholding election, complete a Form W-4P and return it to the Benefits Center. This form can be obtained by calling the Benefits Center.

### ***Loan Balance***

If you have an outstanding loan balance, you have the option of repaying it within two months of the date you terminated employment. This will increase the value of your total SIP balance and the amount of subsequent payments to you. If you do not repay any outstanding loan balance within two months after your termination of employment, the outstanding loan balance will be considered to be a distribution at termination of employment and reported to the IRS as such for income tax purposes.

### ***Partial Distributions During Installment Payment Period***

Once installment payments begin, you will have two opportunities each calendar year to withdraw additional funds. To request a partial distribution (minimum \$200), log on to *Your Benefits Resources* or call and speak to a Benefits Center representative. You will receive your distribution as soon as administratively possible after you request it.

### ***To Apply for Installment Payments***

Call the Benefits Center.



## How the Plan Works

*Section III:  
Taking  
Money Out  
of SIP  
(cont'd)*

### ***To End Installment Payments***

You can stop installment payments at any time by calling the Benefits Center and requesting a final distribution.

Your installment payments will end automatically when your SIP account is depleted. If you die while receiving installments and your surviving spouse is your SIP beneficiary (or one of your SIP beneficiaries), your spouse will be able to elect to either receive an immediate final distribution or to defer receipt of the amount distributable to him or her up to December 31 of the calendar year in which you would have reached age 70½ (or December 31 of the calendar year after the year in which you die, if later). Beneficiaries other than your surviving spouse will be able to elect either to receive a final distribution as soon as practicable after your death or to defer receipt for up to five years from your date of death. See page 39.

### ***Tax Information on Installment Payments***

The taxable amount of an installment payment or other withdrawal will be subject to ordinary income tax and may also be subject to the additional 10% penalty tax. See the "Tax Information" section on pages 43-52.

## How the Plan Works

### Other Circumstances

#### Death

A surviving spouse who is a SIP beneficiary of a participant will be able to elect either: (1) to receive an immediate final distribution (lump-sum or installments) or (2) to defer receipt of the amount distributable to him or her up to December 31 of the calendar year in which the participant would have reached age 70½ (or December 31 of the calendar year after the year in which the participant died, if later). A surviving spouse who is a SIP beneficiary and who does not request a final distribution will have the amount distributable to him or her placed in deferral status. A surviving spouse who defers receipt will be able to take two partial distributions per calendar year (\$200 minimum). A surviving spouse may elect to take a final distribution (either a lump-sum or installment payments) at any time during the deferral period. A surviving spouse may either log on to *Your Benefits Resources* or call the Benefits Center to request a partial distribution or to end deferral. However, if no election is made by the December of the year in which the participant would have reached age 70½, the surviving spouse will begin to receive minimum distribution payments.

While in deferral status, a surviving spouse will be allowed to make investment transfer elections with respect to amounts in the participant's Before-Tax and After-Tax Accounts subject to the rules and limitations described on page 21. A surviving spouse will also be able to make transfer and reallocation elections as described on pages 21-22. A surviving spouse will not be able to make a direct rollover into SIP.

A SIP beneficiary who is not a surviving spouse will be able to elect either to receive an immediate final distribution or to defer receipt of the amount distributable to him or her for up to five years from the date of death. A beneficiary who is not a surviving spouse cannot elect installment payments and is not eligible for any partial distributions during deferral.

The distribution will be reported to the IRS under the beneficiary's Social Security Number, and the beneficiary will be responsible for paying taxes on the taxable portion of the distribution. See the "Tax Information" section on pages 43-52.

#### Layoff

If you are on layoff, you can make SIP withdrawals, loans, and investment fund transfers as if you were an active employee. If you have not been recalled within one year of your layoff date, your employment will be considered terminated for purposes of SIP. You will be entitled to the options available to terminated employees or retirees (final distribution, deferral, installment payments—see pages 29-38).

## How the Plan Works

Other  
Circumstances  
(cont'd)

### *Separation From Service If You Make No Election*

If you separate from service for any reason and make no election for taking money out of SIP, deferral will be automatic.

### *Reaching Age 70½*

If you reach age 70½, you must begin receiving required minimum distribution payments of your SIP accounts no later than April 1 of the following calendar year unless you are still employed by the company. You will receive an explanation of your options in January of the calendar year in which you reach age 70½.

**Important Note:** You will also be receiving benefits from other qualified plans. Consult your tax advisor about the tax consequences of these distributions.

### *Transfers to Non-Participating Organizations*

If you transfer to a business unit or organization that has not adopted SIP, you will not be able to make contributions to SIP, but your SIP participation will continue. You will be able to make withdrawals as if you were an active employee of a participating employer (see pages 23–26). In addition, you will continue repaying outstanding loans and will be eligible to make new loans. The rules on pages 26–29 will generally apply to any loan you make while employed by the non-participating organization. There are some differences though. First, your maximum loan amount may need to be adjusted to reflect any loan you may have taken out under a qualified plan maintained by the non-participating organization. Second, your loan repayments may or may not be made by payroll deduction. If not, you will need to make repayments by personal check. If you miss two consecutive repayments, your loan will be in default. You will be notified if this occurs.

If you terminate employment with the non-participating organization and Solutia, you will have the same options as an active employee who leaves employment (see pages 29–38).

## Special Rules for Certain Participants

### *Salaried and Hourly Supplemental Participants*

If your accounts under the Monsanto SIP were transferred to Solutia's SIP and you are either: (1) a salaried employee and you had your contributions to the Variable and Extended Benefit portions of the Monsanto Salaried Employees' Pension Plan (1976) (the "1976 Plan") transferred to the Monsanto SIP, or (2) an hourly-paid employee and you had your contributions to the Monsanto Hourly-Paid Employees' Pension Plan (1981) (the "1981 Plan") transferred to the Monsanto SIP, the following apply to you:

- ▶ In addition to the accounts described on page 8, you had established in your name an After-Tax Supplemental Account II for your contributions to the 1976 Plan or the 1981 Plan.
- ▶ You can withdraw either one-half or all of your contributions in your After-Tax Supplemental Account II that have not been previously withdrawn. Earnings on your contributions cannot be withdrawn from your After-Tax Supplemental Account II until you terminate employment or elect to receive the maximum after-tax withdrawal.
- ▶ If you are contributing on either a before-tax or an after-tax basis and elect to receive a maximum in-service withdrawal or an age 59½ withdrawal (see pages 25-26), you will also receive distribution of the entire amount of your After-Tax Supplemental Account II (including earnings).
- ▶ In addition to borrowing from your Before-Tax and After-Tax Accounts, you may also borrow amounts from your After-Tax Supplemental Account II.



## Special Rules for Certain Participants

*Temporary  
Part-Time,  
Per Diem,  
Co-Op,  
Summer  
Student,  
Seasonal  
or Other  
Non-Regular  
Employees*

If you are a temporary part-time employee, per diem, co-op, summer student, seasonal employee or other "non-regular" employee, the following exception to the previous description of SIP applies to you:

- ▶ You are eligible to join SIP and begin making before-tax and after-tax contributions as of the date you are hired by Solutia or a participating organization; however, company match contributions will only be made at the end of the calendar year if you have completed at least 1,000 hours of service during the calendar year. If you do not complete at least 1,000 hours of service during a calendar year, you will not receive a company match contribution for that calendar year.

*Alternate  
Payees*

Alternate Payees under a Qualified Domestic Relations Order will have the same options as an employee who leaves employment or retires (see pages 29–38). There is one exception: An alternate payee other than your spouse under a Qualified Domestic Relations Order cannot make direct rollovers into SIP.

## Tax Information on Distributions

This information is a general summary of the federal income tax consequences of various SIP distributions. State and local income tax and withholding rules may differ. When you are eligible to receive a SIP distribution, you should consult a tax advisor regarding your specific situation.

A payment from SIP that is eligible for rollover can be taken in two ways. You can have all or any portion of your payment either: (1) PAID IN A "DIRECT ROLLOVER," or (2) PAID TO YOU. A rollover is a payment of your SIP benefits to your Individual Retirement Arrangement (IRA) or to another employer plan that will accept the rollover. This choice will affect the tax you owe.

**1. If you choose a DIRECT ROLLOVER, the portion of your payment rolled over:**

- ▶ Will not be taxed in the current year, and no income tax will be withheld.
- ▶ Will be paid directly to your IRA or, if you choose, to an employer plan that accepts your rollover.
- ▶ Will be taxed later when you take it out of the IRA or the employer plan.

**2. If you choose to have your SIP benefits PAID TO YOU:**

- ▶ You will receive only 80% of the taxable amount of the payment, because the plan administrator is required to withhold 20% of the payment and send it to the IRS as income tax withholding to be credited against your taxes.
- ▶ Your payment will be taxed in the current year unless you roll it over. You may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59½, you also may have to pay an additional 10% penalty tax.
- ▶ You can roll over the payment by paying it to your IRA or to another employer plan that accepts your rollover within 60 days of receiving the payment. The amount rolled over will not be taxed until you take it out of the IRA or employer plan.
- ▶ If you want to roll over 100% of the payment to an IRA or an employer plan, you must find other money to replace the 20% that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

# Tax Information on Distributions

## *Payments That Can and Cannot Be Rolled Over*

Payments from SIP may be "eligible rollover distributions." This means that they can be rolled over into an IRA or into another employer plan that accepts rollovers. The following types of payments cannot be rolled over.

### **NON-TAXABLE PAYMENTS**

In general, only the taxable portion of your payment is an eligible rollover distribution. If you have made after-tax contributions, these contributions will be non-taxable when they are paid to you, and they cannot be rolled over.

If you made after-tax contributions before January 1, 1987 ("grandfathered" contributions), you may be able to withdraw these first to avoid paying tax on a distribution. However, any distributions in excess of such grandfathered contributions or any calculated installment payment will be at least partially taxable.

For tax purposes, if you take an in-service withdrawal before age 59½, the distribution will include: first, your grandfathered after-tax contributions in your account as of December 31, 1986, if any, (non-taxable); second, proportionately, your after-tax contributions after that date (non-taxable) and earnings on all after-tax contributions (100% taxable); and finally, your Company Match Account (100% taxable).

For tax purposes, if you either: (1) are 59½ or older and take a withdrawal while still employed; (2) take a partial distribution after you terminate employment; or (3) are receiving fixed installment payments, the distribution will include: first, your grandfathered after-tax contributions in your account as of December 31, 1986, if any, (non-taxable); second, proportionately, your after-tax contributions after that date (non-taxable) and earnings on all after-tax contributions (taxable); third, your before-tax contributions and earnings on your before-tax contributions (100% taxable); fourth, your rollover contributions and earnings on your rollover contributions (100% taxable); and finally, your Company Match Account (100% taxable).

Each calculated installment payment will be considered as paid partly from non-taxable and partly from taxable amounts in your SIP account.

### **PAYMENTS SPREAD OVER LONG PERIODS**

You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for the maximum payout period allowed by SIP based on your age or a period of 10 years or more.

## Tax Information on Distributions

### *Payments That Can and Cannot Be Rolled Over (cont'd)*

#### **REQUIRED MINIMUM PAYMENTS**

Once you reach age 70½, a certain portion of your payment may not be eligible for rollover because it is a "required minimum payment" that must be paid to you.

### *Direct Rollover*

You can choose a direct rollover of all or any portion of your payment that is an eligible rollover distribution, as described previously. In a direct rollover, the eligible rollover distribution is paid directly from SIP to an IRA or another employer plan that accepts rollovers by means of a check or stock certificate issued in the name of the IRA or plan but sent to you at your home address. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or the employer plan.

#### **DIRECT ROLLOVER TO AN IRA**

You can open an IRA to receive the direct rollover. (The term "IRA," as used in this description, includes Individual Retirement Accounts and individual retirement annuities.) If you choose to have your payment made directly to an IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to an IRA at that institution. If you want to roll over Solutia, Pharmacia, or Monsanto stock, be sure that the IRA can accept such stock. If you are unsure of how to invest your money, you can temporarily establish an IRA to receive the payment. However, in choosing an IRA, you may wish to consider whether the IRA you choose will allow you later to move all or part of your payment to another IRA, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on IRAs (including limits on how often you can roll over funds between IRAs).



# Tax Information on Distributions

*Direct  
Rollover  
(cont'd)*

## **DIRECT ROLLOVER TO A QUALIFIED PLAN**

If you are employed by a new employer that has a qualified plan and you want a direct rollover to that plan, ask the plan administrator whether it will accept your rollover. An employer plan is not legally required to accept a rollover and may not accept Solutia, Pharmacia, or Monsanto stock. If your new employer's plan does not accept rollovers, you can choose a direct rollover to an IRA.

## **DIRECT ROLLOVER OF INSTALLMENT PAYMENTS**

If you receive eligible rollover distributions that are paid in installments for less than 10 years and less than the maximum payout period based on your age, your choice to make or not make a direct rollover will apply to all later installment payments until you change your election. You are free to change your election for any later installment payment.

# Tax Information on Distributions

## Payment Paid to You

If you have an eligible rollover distribution paid to you, it is subject to 20% income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to an IRA or another plan that accepts rollovers. If you do not roll it over, special tax rules described later may apply.

### INCOME TAX WITHHOLDING

- ▶ *Mandatory Withholding.* If any portion of the payment to you is an eligible rollover distribution, SIP is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if your eligible rollover distribution is \$10,000, only \$8,000 will be paid to you, because the plan must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, you will report the full \$10,000 as a payment from the plan. You will report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year.
- ▶ *Voluntary Withholding.* If any portion of your payment is not an eligible rollover distribution but is taxable, the mandatory withholding rules described above do not apply. You may elect not to have withholding apply to that portion.

### SIXTY-DAY ROLLOVER OPTION

If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to an IRA or another employer plan that accepts rollovers. If you decide to roll over your distribution, you must make the rollover within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the IRA or the employer plan.

You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% that was withheld. If you choose to roll over 100% within the 60-day period, you must contribute other money to the IRA or the employer plan to replace the 20% that was withheld. However, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

*Example:* Your eligible rollover distribution from SIP is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be withheld and sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to an IRA or employer plan. To do this, you roll over the \$8,000 you received from SIP, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000 is not taxed until you take it out of the IRA or employer plan. If you roll over the entire \$10,000, when you file your income tax

# Tax Information on Distributions

*Payment*

*Paid to You*

*(cont'd)*

return, you may get a refund of the \$2,000 withheld. If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000.)

## **ADDITIONAL 10% PENALTY TAX IF YOU ARE UNDER AGE 59½**

If you receive a payment before you reach age 59½ and you do not roll it over, then, in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion. The additional 10% penalty tax does not apply to your payment if it is: (1) paid to you because you separate from service with all Solutia organizations during or after the year you reach age 55; (2) paid because you retire due to disability; (3) paid to you as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies); or (4) used to pay certain medical expenses. See IRS Form 5329 for more information on the additional 10% penalty tax.

## **SPECIAL TAX TREATMENT**

If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. An unpaid loan secured by taxable amounts will be treated as a taxable distribution in the year it is canceled. However, if a distribution qualifies as a "lump-sum distribution," it may be eligible for special tax treatment. A lump-sum distribution is a payment, within one calendar year, of your entire balance under SIP that is payable to you because you have reached age 59½ or have separated from service with all Solutia organizations. The special tax treatment for lump-sum distributions is described below.

- **10-Year Averaging If You Were Born Before January 1, 1936.** If you receive a lump-sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates). Ten-year averaging often reduces the tax you owe because it treats the payment much as if it were paid over 10 years.

# Tax Information on Distributions

## Payment Paid to You (cont'd)

There are other limits on the special tax treatment for lump-sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump-sum distributions (including Pension Plan lump-sum payments) that you receive in that same calendar year. If you have previously rolled over a payment from SIP or the former Monsanto PAYSOP Plan either in a direct rollover or a rollover you made yourself, you cannot use this special tax treatment for later payments from SIP. If you roll over your payment to an IRA, you will not be able to use this special tax treatment for later payments from the IRA. Also, if you roll over only a portion of your payment to an IRA, this special tax treatment is not available for the rest of the payment. If you received partial distributions after you reached age 59½ or after termination of service or if you received installment payments or if an outstanding loan was treated as a distribution, you may not be able to use forward averaging when the remainder of your SIP balance is paid to you in a complete distribution. This is because you may not have another event that qualifies the remainder as a lump-sum distribution. Additional restrictions are described in IRS Form 4972.

The following chart summarizes the tax rules on distributions that qualify for lump-sum tax treatment:

### TAX CONSIDERATIONS—TAXABLE PORTIONS OF SIP DISTRIBUTION OPTIONS

Defer Payments	Take Lump-Sum Distribution	Elect Periodic Payments or Partial Distributions
Must begin distribution by age 70½	Taxable income subject to income tax but not FICA	Taxable income subject to income tax but not FICA
Taxes deferred until receipt	Unpaid loans considered taxable distributions	Unpaid loans considered taxable distributions
Unpaid loans considered taxable distribution	10% penalty tax if distributed before age 59½ and not rolled over (unless at least age 55 in year in which you terminate)	10% penalty tax if distributed before age 59½ and not rolled over (unless at least age 55 in year in which you terminate or you elect installments over your life expectancy)
	Forward averaging may be applicable	No forward averaging
	Rollover option	Rollover option for partial distributions and for installment payments if payout period less than shorter of 10 years or life expectancy



## Tax Information on Distributions

*Payment  
Paid to You  
(cont'd)*

### **SOLUTIA, PHARMACIA, OR MONSANTO STOCK**

There is a special rule for a payment from SIP that includes Solutia, Pharmacia, or Monsanto stock. To use this special rule: (1) the payment must qualify as a lump-sum distribution, as described previously (or would qualify, except that you do not yet have five years of participation in SIP) or (2) the Solutia, Pharmacia, or Monsanto stock included in the payment was purchased with after-tax contributions, if any. Under this special rule, you may have the option of not paying tax on the **"net unrealized appreciation"** of the stock until you sell the stock. Net unrealized appreciation generally is the increase in the value of the Solutia, Pharmacia, or Monsanto stock while it was held by SIP. For example, if your Solutia stock in SIP was purchased when the stock was worth \$1,000 but was worth \$1,200 when you received it, you would not have to pay tax on the \$200 increase in value until you later sold the stock.

You may elect not to have this special rule apply to the net unrealized appreciation. In this case, your net unrealized appreciation will be taxed in the year you receive the stock, unless you roll over the stock. The stock (including any net unrealized appreciation) can be rolled over to an IRA or another employer plan that accepts stock either in a direct rollover or a rollover that you make yourself.

If you receive Solutia, Pharmacia, or Monsanto stock in a payment that qualifies as a lump-sum distribution, the special tax treatment for lump-sum distributions described previously (such as 10-year averaging) also may apply. See IRS Form 4972 for additional information on these rules.

## Tax Information on Distributions

### *Surviving Spouses, Alternate Payees, and Other Beneficiaries*

In general, the rules summarized previously that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in the plan results from a "Qualified Domestic Relations Order," which is an order issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized previously also apply to a deceased employee's beneficiary who is not a spouse. However, there are some exceptions for payments to surviving spouses, alternate payees, and other beneficiaries that should be mentioned.

If you are a surviving spouse, you may choose to have an eligible rollover distribution paid in a direct rollover to an IRA or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to an IRA, but you cannot roll it over to an employer plan. If you are an alternate payee, you have the same choices as the employee. Thus, you can have the payment paid as a direct rollover or paid to you. If you have it paid to you, you can keep it or roll it over yourself to an IRA or to another employer plan that accepts rollovers. If you are a beneficiary other than the surviving spouse, you cannot choose a direct rollover, and you cannot roll over the payment yourself.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10% penalty tax described in the "Payment Paid to You" section, even if you are younger than age 59½.

If you are a surviving spouse, an alternate payee who is a spouse or former spouse, or another beneficiary, you may be able to use the special tax treatment for lump-sum distributions and the special rule for payments that include Solutia, Pharmacia, or Monsanto stock, as described in the "Payment Paid to You" section. If you receive payment because of the employee's death, you may be able to treat it as a lump-sum distribution if the employee met the appropriate age requirements, whether or not the employee had five years of participation in SIP.

## Tax Information on Distributions

### *How to Obtain Additional Information*

This tax information summarizes only the federal (not state or local) tax rules that may apply to your payment. These rules are complex and contain many conditions and exceptions not mentioned here. Therefore, you should consult a professional tax advisor before you take a payment of your benefits from SIP. Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office or by calling 1-800-TAX-FORMS.